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C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 003886

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SUBJECT: NAKAGAWA DISCUSSES ECONOMIC VIEWS AT DIPLOMAT'S  
LUNCH

Classified By: Ambassador J. Thomas Schieffer for reasons 1.4 (b,d)

11. (SBU) Summary. Ruling party policy heavyweight Hidenao Nakagawa declared that Japan was finally on the path to a healthy economy and he highlighted the party's Policy Research Council (PARC) plan to cut budget expenditures to achieve a "primary balance" by 2011 during a recent lunch with diplomats in Tokyo. Nakagawa urged Japan to work together with China and India to create a new structure for economic development in Asia rather than relying on the US and promised Japan would continue to provide overseas development assistance (ODA). In addition, two Koizumi children, Masaaki Taira and Gaku Hashimoto, spoke briefly about their political beliefs and activities. End summary.

Japan,s Economy Improving, Goal of 2011 Primary Balance  
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12. (SBU) LDP PARC Chairman Hidenao Nakagawa told a group of diplomats at LDP headquarters that Japan would finally be able to ride the "economic tide" to recovery. Cuts in government expenditures and good economic policies would help Japan achieve greater growth, he said. Comparing Japan to the United States ten years ago, Nakagawa described how the United States had successfully created and expanded the information technology (IT) industry. Japan now had finally "caught the IT wave" and was successfully making the industry much more accessible to the general populace rather than only the educated elite.

13. (SBU) Nakagawa called the recent PARC decision to achieve a "primary balance" (e.g. government expenditures equal government revenues minus social security and debt servicing costs) by 2011 significant because it is extremely rare for the LDP to propose cuts in government expenditures.

(Comment: this implies a consumption tax increase in the next few years. The Cabinet adopted the 2011 primary balance target on July 7 as part of its annual fiscal policy guidelines. End comment.) He explained that the LDP hoped to eliminate wasteful expenditure and allocate funds more efficiently to create a smaller government. Some media reports were claiming that the Koizumi reforms would end with the Koizumi administration, but Nakagawa said the LDP had laid those fears to rest with its decision to achieve "primary balance" in the government budget. The new prime minister would have to work hard to reach this goal in accordance with the party,s decision, however.

Japan Must Join With China and India  
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14. (SBU) Nakagawa emphasized that Asia should not and could not just rely on U.S. consumption for growth. Japan must

join together with China and India to create a new structure for economic development. Nakagawa recommended that Japan work with individual countries to help manage food shortages and environmental problems while the countries were reforming their political and economic structures and promoting domestic demand.

#### ODA Promises Will Be Kept

15. (SBU) Nakagawa addressed concerns about Japanese overseas development assistance (ODA), stating that Japan would keep all international promises. He claimed Japan had already achieved 40 percent of its ODA pledges in the past two years and was about to complete its ODA commitments to Africa. He added that obviously ODA expenditures were linked to the budget but insisted Japan would implement the ODA plan as promised.

#### Koizumi Kids: Taira and Hashimoto

16. (SBU) Masaaki Taira, a member of the Yamazaki faction and representative for Tokyo's 4th district, said he specialized in measures to support small and medium size enterprises. He has also established a forum with other first term LDP Diet members called the "Asian Cooperation Forum for the New Generation". The group intends to become active after the election in order to avoid being used during it. Taira thought the current discussion about Japan's growing social disparity had become too emotional and failed to help solve the real problem. He said the opposition parties were trying to feed "more candy to a diabetic" by proposing supplementary funds to narrow the gap. Instead, he argued for removing political and economic barriers to expand access to more and better opportunities.

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17. (SBU) Gaku Hashimoto, age 32 and son of the recently deceased former Prime Minister Ryutaro Hashimoto, is a proportional member from the Chogoku block. He focuses on IT and decentralization issues. He hopes to further advance IT and wants to encourage government decentralization to change the present structure of Japan. Hashimoto has three children.

#### Nakagawa Bio Note

18. (C) Nakagawa spoke comfortably in Japanese to an audience of foreign diplomats. He demonstrated his sense of humor by putting Hashimoto on the spot and making him answer the audience questions while Nakagawa finished his lunch. One Japanese attendee commented privately that Nakagawa sounded like a "yakuza" (gangster) when he talked.

#### Comment

19. (SBU) Nakagawa is a likely contender for an important economic policy post in the next administration. He implicitly stated that the party had endorsed the basic direction of Koizumi's economic reform policies. Other contacts have also told us that whoever becomes the next LDP President will likely continue the Koizumi economic reform policies - particularly fiscal consolidation - as the party platform pledges.

SCHIEFFER